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NATIONAL INTELLIGENCE DAILY CABLE

Thursday October 14, 1976 CI NIDC 76-241C

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National Intelligence Daily Cable for Thursday October 14, 1976.

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The NID Cable is for the purpose of informing senior US officials.

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CHINA: Arrests of Leftists

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[REDACTED] There has still been no public announcement of the elevation of Hua Kuo-feng to posts formerly held by Mao Tse-tung or of the arrests of leading members of the leftist faction in Peking.

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[REDACTED] Private confirmation of Hua's change in status, which was made to Western newsmen Tuesday evening by Chinese officials, presumably followed formal action by the plenum on the Politburo's recommendation.

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[REDACTED] It is possible that no public statement will be made on the fate of the discredited leftists even after the meeting in Peking ends; party leaders may wish the charges against them to circulate internally, preferring that the bill of particulars leak out only after some time has passed.

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[REDACTED] The confidence with which leaders from Hua on down are acting, however--and the undisguised glee and relief evidenced by many officials at lower levels--suggests that the dominant group in Peking believes that it has a convincing case against the leftist faction and that the leaderless but still significant minority of leftist followers in the capital and the provinces will not react to the arrests with uncontrollable violence. The lack of official comment on the arrests does not seem to mean that significant pressure for their release exists; communist propaganda outlets in Hong Kong have removed from sale photographs in which they appear.

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[REDACTED] So far as can be ascertained, the country is calm. There is no evidence thus far of special troop alerts in Peking or in the provinces--including the sensitive Manchurian area, which has been a hotbed of radical sentiment in the past year, and Shanghai, from which three of the quartet of leftist leaders hail. Regular troops apparently have been used to occupy Tsinghua and Peking universities, centers of leftist agitation that have been closely associated with leftist leaders Chiang Ching and Yao Wen-yuan.

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[] The lack of strong reaction to the exercise of pre-emptive power by dominant leaders in Peking follows patterns set earlier in this decade. The left did not visibly resist a widespread purge of its ranks in 1970, when the tide first turned against the "radical" excesses of the Cultural Revolution. Even more significantly, there was no overt reaction from the military--which certainly had a strong hand to play--following the fall of former defense minister Lin Piao in 1971.

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[] The pattern of trouble in the provinces suggests that it occurs when there has been some sort of indication from Peking that agitation is permissible. There is now no one in Peking giving that signal.

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[] In the absence of any official announcements, rumors continue to circulate in Peking regarding the number of persons arrested late last week. The US Liaison Office reports that the account now receiving most credence places the number at greater than 50. In addition to a number of high officials in the ministries of education and culture who were closely associated with Chiang Ching, there have been persistent reports that Politburo member Wang Tung-hsing has also been arrested. Although there is no direct confirmation of this story, it is plausible.

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[] Most accounts of the past several days claim that Hua used his own personal bodyguard, rather than the normal Peking security force, which has been under Wang's direction, to make the arrests.

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[] In the month following Mao's death great propaganda attention was devoted to the security unit, stressing its close relationship to the deceased Chairman; the implication conveyed was that the unit was "loyal" to Mao and all he stood for. This treatment tended to link Wang to the leftist "defenders" of Maoist principles. Although not as clearly identified with the leftist cause as Chiang Ching, Yao Wen-yuan, Chang Chun-chiao, and Wang Hung-wen, Wang has long been suspected of leftist sympathies.

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[] If Wang has been arrested along with the four prominent leftists, there are presently only 10 remaining full members of the Politburo out of 21 elected at the 10th Party Congress in

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1973; of these, left-leaning Li Te-sheng, commander of the Shenyang Military Region, may also be in trouble and another member is bed-ridden and wholly inactive. There is thus ample reason for the Central Committee plenum to replenish this leading policy-making organ. With the left-right political deadlock now broken, this should prove less troublesome than previously.

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[] In any event, the record of dissension evident in the public media during the month following Mao's death makes it virtually certain that the leading leftists were somehow intriguing and "conspiring"--either to retain the shreds of power they still possessed or to turn the tables on their "rightist" enemies with the help of Wang Tung-hsing's Peking security unit. The current Peking rumors suggest that in addition to "forging Mao's will" the leftists attempted the latter course, forcing Hua Kuo-feng's hand. But it is equally possible that important military leaders, impatient with continued leftist intransigence and agitation, urged Hua to make a pre-emptive move.

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[] In either case, it is clear that when Hua acted he had strong military support--in particular from Defense Minister Yeh Chien-ying, from Su Yu, a leading member of the important

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military affairs commission, and perhaps above all from Chen Hsi-lien, the commander of the Peking Military Region, who in a message immediately following Mao's death pledged to defend the capital against all vicissitudes, including intrigues against the constituted central authorities. This military support strengthens Hua's hand during the immediate crisis, but it also makes him more dependent on the military over the longer term.

LEBANON: Situation Report

The Syrian advance west and south of Jazzin continued yesterday. Artillery barrages and ground movements in the mountains east of Beirut indicate that another offensive may be developing there.

Syrian forces have taken Rum and are apparently continuing slowly toward Sidon, using tanks under cover of an artillery barrage. Sidon has been heavily shelled; the Syrians are probably planning to cut the city off from its sources of supply rather than take it outright, a move that would prove costly.

The Syrian drive south of Jazzin toward Nabatiyah has apparently reached Saydun. Other Syrian forces are moving along the road toward Marj Uyun but have not yet reached Aramta, which is defended by a contingent of Iraqi-dominated fedayeen.

It is not clear how far south the Syrians intend to go. They are narrowing the gap between their positions and the Israeli border but presumably remain wary of triggering an Israeli reaction.

The situation in Beirut is tense. The Christian radio claims 1,500 Iraqis have arrived in Lebanon, many of them stationed in Beirut's hotel district. The US embassy believes the charge may be a Christian pretext for an operation to retake the hotel district, where the embassy is located.

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[] Syria has announced that it will attend the Arab summit conference scheduled for October 18. Its delegation will be headed by Foreign Minister Khaddam, not President Asad--a move presumably designed to undercut the summit's effectiveness without appearing obviously obstructive.

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[] Arab governments have not reacted to Palestine Liberation Organization chief Arafat's appeal earlier this week for an emergency meeting of the Arab League foreign ministers--an indication that there is little eagerness in Arab circles to put pressure on Syria.

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[] The Israeli government probably welcomes the new Syrian offensive as a further blow to Palestinian-leftist prospects in Lebanon and as an aid to Israel's efforts to eliminate Palestinian commando units from southern Lebanon.

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[] To this end, Israeli military authorities continue to provide Christian forces near the Israel-Lebanon border with tactical guidance and limited military aid, including small arms, ammunition, and defensive training for villagers. The Israelis are likely to step up this assistance, short of reinforcing the Christians with their own troops, should Palestinian units put up stiffer resistance.

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[] Israeli artillery units located along the border reportedly shelled Palestinian strongholds around Marj Uyun last weekend in support of Christian attacks against these positions. Several weeks ago, the Israelis apparently provided similar artillery support for Christian forces fighting Palestinian units in the southern Lebanese village of Ayn Ibil.

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[] Israeli troops have for some time conducted patrols along principal Palestinian access routes on both sides of the border; some press reports claim night patrols are now sent as far north as the Litani River.

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[] The border patrols [] enable the Israelis to give southern Christian villages advance warning of impending Palestinian attacks. The Israelis reportedly have

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also provided a number of these villages with direct telephone links so that the villages can call Israeli military units near the border for emergency assistance, such as artillery support.

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THAILAND: Planning Political Reform

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[REDACTED] In a speech yesterday, Thai Prime Minister Thanin ruled out an early return to Western-style democracy. Thanin outlined a prolonged period of political reform that would gradually restore democratic processes in four stages over a 16-year period.

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[REDACTED] The first four-year stage would be a period of "national reconstruction" in which an appointed unicameral legislature would ensure political stability. During the second four years, the legislature would be broadened into two houses with equal powers--an appointed upper house and an elected lower house.

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[REDACTED] The third stage, according to Thanin, would involve the "development of the democratic system," and the last stage might see a return to a unicameral legislative--this time fully elected.

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[REDACTED] The appointed legislature--which the military leaders hope to have in place by the end of the month--undoubtedly will be little more than a rubber stamp for the decisions of a strong executive. It is not clear how much latitude will be permitted the civilian cabinet that the military earlier promised to set up.

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PANAMA: Torrijos' Anniversary

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[REDACTED] //The relatively bland observance on October 11 of the 1968 coup that brought strongman Omar Torrijos to power is another indication that the government in Panama is on the defensive.//

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[REDACTED] //The gathering of about 20,000 people--many of whom were government employees officially encouraged to attend--was far below official targets. Torrijos' appearance was greeted with apathy and the mood of the crowd, like the tenor of the speeches, was generally uninspired. The largest cheer came when Torrijos announced that the following day would be a holiday.//

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[REDACTED] //Torrijos acknowledged that the economic situation is difficult, but offered few specific solutions. He enumerated urban ills such as increased unemployment, the rising cost of living, and poor transportation. In promising an emergency public works program, he admitted that an unemployment survey had yet to be started, suggesting that much remains to be done before an effective program can get under way.//

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[REDACTED] //The General indicated he was considering two steps which, if implemented, would add to discontent. Asking for sacrifice, he said that new tax measures must be enacted and that some articles of the labor code which are hurting business must be changed. Labor unions would be particularly disturbed if the labor code is revised in ways that reduce their prerogatives.//

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[redacted] //Torrijos' swipes at the US were perfunctory. He did not set any deadlines in the canal negotiations nor repeat past Panamanian demands for an end to the US presence before the year 2000. He even noted that rash actions could cost Panama support in the hemisphere. [redacted]

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CANADA: Defense Minister Quits

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[redacted] //Canadian Defense Minister James Richardson resigned yesterday because of differences with Prime Minister Trudeau's program to promote bilingualism. Richardson's move reflects increasing resentment among English-speaking Canadians toward the bilingual program.//

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[redacted] //Trudeau is also under heavy attack for his wage and price controls, seen by labor and business alike as major causes of high unemployment and the sluggish economy. The Canadian Labor Council has called a nationwide work stoppage today to protest wage controls. There had been only lukewarm support for the stoppage until recently, but indications of a sudden surge of support among Quebec labor unions--usually the most militant--point to a heavy response.//

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[redacted] //The legislative program presented at the opening of Parliament on Tuesday suggests Trudeau is trying to temper the more unpopular aspects of the government's bilingual and economic controls program.//

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[redacted] //The government said it will place "high priority" on fostering understanding between English and French Canadians, emphasizing language training and cultural exchanges for youth.//

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[] //There was no mention of Trudeau's statements last year about the need for a continuation beyond 1978 of the wage and price controls and on the failure of the free market system. To promote the close cooperation with the private sector the government will launch a "major series of consultations" throughout Canada. It will ask provincial governments to agree to early talks on the renewal of anti-inflation agreements and on guidelines for eventual easing of wage and price controls.//

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[] //The failure to mention the thorny question of constitutional amendments affecting the role of the provinces suggests Trudeau is uncertain about his next move on this issue. []

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JAMAICA: Alcoa Agreement

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[] Settlement of Jamaica's two-year contract dispute with Alcoa earlier this week brings the country's bauxite and alumina operations under closer government control.

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[] Under the agreement, Jamaica will:

--Purchase a 6-percent share--worth about \$10 million--in Jamalco, a new joint company that will operate Alcoa's Jamaican bauxite and aluminum properties.

--Buy all of Alcoa's mining and non-operating lands, worth about \$2.5 million.

--Settle disputes through private international arbitration.

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[] In return:

--Jamaica agreed to reduce its bauxite production tax to 7.5 percent from the current 8 percent, effective for eight years and retroactive to January 1, 1976.

--Jamalco obtained guaranteed mining leases to cover its bauxite requirements for the next 40 years.

--Alcoa agreed to drop its case with the International Center for the Settlement of Investment Disputes.

25X1 [] Jamaica's equity and land purchases are to be made at book value. The terms require a 10-percent down payment, with the remainder spread over nine years at 7 to 8.5 percent interest. The equity purchase in Alcoa's combined bauxite and alumina operations is equivalent in value to the 51-percent share of the company's bauxite holdings that the government originally had been demanding. The accord stipulates that the government can expand Jamalco's alumina capacity, thereby enabling it to increase its equity participation.

25X1 [] The agreement will become effective after legislative approval and after Alcoa's Clarendon alumina refinery is restored to full operation. The 550,000-ton-capacity refinery was damaged by an explosion in July and is not expected to be completely repaired until late 1977.

25X1 [] The agreement also brings Jamaica closer to a final settlement with the Kaiser and Reynolds aluminum companies. Final accords are expected by the end of this year, and probably will be similar to the settlement with Alcoa.

25X1 [] The government's willingness to reduce the bauxite tax reflects a desire to encourage the companies to increase their Jamaican investments. The companies, however, are unlikely to expand their Jamaican operations, which now account for nearly two fifths of US bauxite and alumina supplies.

25X1 [] They are disturbed by past tax boosts, which have doubled the cost of imported bauxite to the US to over \$20 per ton, and by mounting civil unrest to which they see no end. The companies are diversifying their supply sources by investing in Australia, Brazil, and Indonesia.

25X1 [] The agreement will slightly reduce government revenue in the near term, but this should not be a problem next year. World aluminum demand is rising rapidly, resulting in higher government revenues from bauxite sales. Jamaican bauxite revenues in 1977 are expected to jump by as much as two thirds to \$220 million. []

CUBA: Economic Prospects

25X1 [] //After four years of sustained growth, the Cuban economy now is suffering from persistent drought and a sharp drop in world sugar prices.//

25X1 [] Cuba's three-year drought has been particularly severe in the three eastern provinces that account for the bulk of agricultural production. Sugar output dropped last year, and declines in rice and coffee production have forced cuts in per capita rations. A reduction in raw material imports from the West has slowed expansion in manufacturing.

25X1 [] //Despite increased purchases from Communist countries, total imports will fall below last year's level. Cuba's foreign trade deficit will increase an estimated 25 percent from last year to some \$500 million.//

25X1 [] //The collapse of sugar prices has sharply reduced Cuba's hard-currency earnings, forcing greater reliance on Soviet economic assistance. Moscow presently charges Cuba only about half the world market price for oil and has agreed to pay 30.4 cents per pound for Cuban sugar through 1980, well above the current world market price of 9.0 cents. Direct Soviet balance-of-payments aid also will increase.//

25X1 [] //At the same time, Cuba has cut its Eurocurrency borrowing and has drawn sparingly on some \$2 billion in Western trade credits. Cuba apparently chose this course because bleak prospects for sugar prices would make repayment difficult.//

25X1 [] //This year's slowdown has ended four years of sustained economic growth, the longest such period since Castro seized power in 1959. The 3-percent average annual gain reflected rising investment, which was facilitated by Soviet financial and technical assistance and, after 1973, by high world sugar prices and increased Western trade credits. The economy also benefited from more systematic planning and budgeting procedures, introduced under Soviet prodding.//

25X1 [] The Castro government has not measurably reduced Cuban dependence on exports of sugar or on imports of foodstuffs and industrial materials. Nickel production has not increased,

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and highly publicized investments in cattle and citrus have failed to pay off because of feed shortages and persistent drought.

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[] Cuba remains dependent on imports for petroleum, for most capital goods, for nearly one third of its foodstuffs, and for a large share of manufacturing inputs.

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[] //The current setback will force some downward revision of Cuba's first five-year plan (1976 to 1980), which was based on world sugar prices of 15 to 20 cents a pound. The plan's basic strategy, however, will remain unchanged. This calls for continued growth in sugar production as well as an effort to diversify agriculture to replace foodstuffs now being imported. Investment in industry will continue to receive high priority, at the expense of social outlays.//

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[] //Economic growth will be slow at best, because the drought has already damaged the 1976-1977 sugar crop. Dim prospects for a major increase in world sugar prices will keep imports from the West low. Cuba, however, can replace most essential Western goods with imports from Communist countries. Castro's temporary moratorium on new projects using Western financing and capital goods will eliminate several potentially productive activities.//

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[] //Although the government is cutting back sharply on hard-currency spending by diplomatic missions, it is unlikely to reduce its small economic assistance programs to developing nations in Africa, Asia, and the Caribbean. Havana could afford major interventions such as in Angola only if they were paid for by the USSR.// []

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NORWAY-USSR: Discuss 200-Mile Limit

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[] Norway and the USSR began talks this week on adjusting their reciprocal fishing agreements in the light of Norwegian plans for a 200-mile economic zone. The talks will be complicated by a dispute over demarcation of the Barents Sea and continuing friction over Norway's Svalbard archipelago.

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[] The Soviets have conducted missile firings into the Barents Sea on three occasions in the past 12 months, temporarily closing a portion of the area in dispute between the two countries. This area lies between a Norwegian-proposed median line boundary and a sector line claimed by the Soviets.

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[] Twice last summer the Norwegians sent a research ship to conduct seismic tests in the disputed zone, apparently to determine its oil potential. The two governments have exchanged protests over each other's activities in the area.

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[] Norway was prepared to compromise at the last round of demarcation line talks in June, but the Soviets insisted that Oslo accept the sector line, which would allow the Soviets to exert economic control over the entire 155,000 square kilometers in contention. Although the Norwegians had hoped to settle the Barents Sea dispute before declaring their 200-mile economic zone next year, they rejected out-of-hand the USSR's uncompromising position. The Norwegians still plan to declare a 200-mile limit on January 1 if Parliament approves the enabling legislation.

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[] A new dispute over Svalbard also appears to be brewing as a result of Moscow's stationing of five large helicopters at the Soviet administrative headquarters at Barentsburg. Each helicopter is capable of transporting 30 men to any part of the archipelago on short notice. The Norwegians contend that the Soviets should have sought permission to station the new helicopters there.

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[] Although 40 nations share equal economic exploitation rights on Svalbard under a 1920 treaty, only Norway and the Soviet Union currently conduct commercial mining operations there. The USSR has consistently tried to evade Norwegian efforts to assert administrative control over the Soviet settlement on the archipelago. []

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